

# Student Financial Aid



House Appropriations  
Committee Retreat  
November 13, 2012

# Background



# Financial Aid Terms

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## □ What is Financial Aid?

### ■ Gift Aid

- Can be need-based or merit-based
- Can take the form of direct aid or waivers
- Scholarships
- Grants

### ■ Self-help

- Loans
- Work Study

# Financial Aid Terms

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## □ Who provides aid?

### ■ Federal

- Pell grants
- Supplemental Educational Opportunity Grant (SEOG)
- Federal Work Study
- Perkins Loans
- Stafford and PLUS Loans

### ■ State

- State need-based grants
- Tuition Assistance Program (TAG)
- Military Survivors & Dependents
- 2-Year Transfer Grants

### ■ Institution

- Scholarship programs
- Increased use of tuition for grants
- Waivers

### ■ Other

- Civic
- Business
- Not-for-profit / Foundations

# Current Virginia Financial Aid Process



# Key Components / Terms

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- ❑ Cost of Attendance (COA)
- ❑ Expected Family Contribution (EFC)
- ❑ Financial Need
- ❑ SCHEV Role
- ❑ Institution Role

# Cost of Attendance (COA)

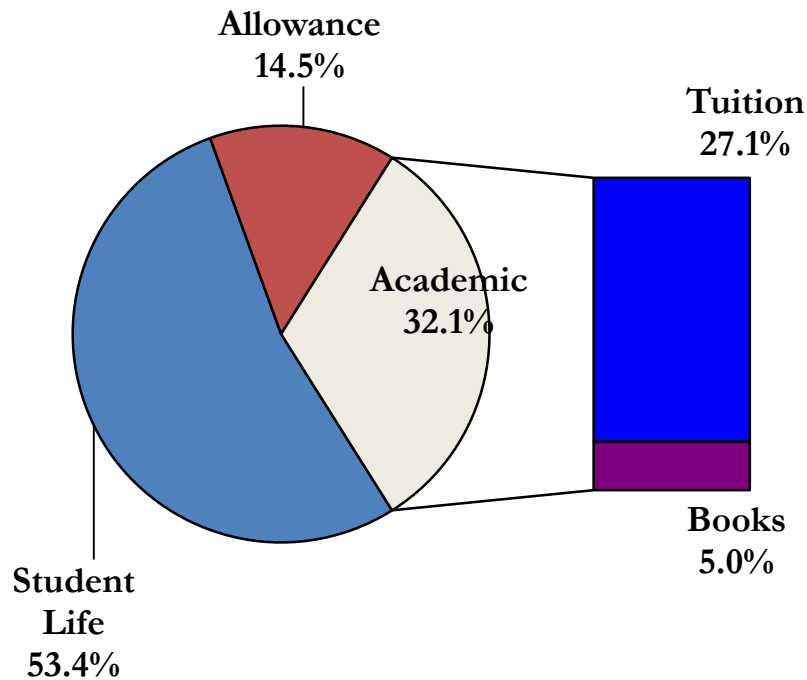
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- ❑ Cost of Attendance is institution-specific
- ❑ Includes:
  - Tuition and mandatory E & G fees
  - Mandatory non-E & G fees ("Comp Fee")
  - Room & Board (allowances are provided for students living at home)
  - Books & supplies (allowance)
  - Transportation (allowance)
  - Misc. personal & other expenses (allowance)
  - May also include allowances for PC, loan fees, study abroad costs, dependent care expenses, disability-related expenses
- ❑ We can place these costs into three categories:
  - Instruction / Academic: E & G Tuition & Fees and Books
  - Student Life: Comp Fee, Room & Board
  - Allowances

# Cost of Attendance Breakdown 2010-11

## Four-Year Institutions

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Est. 2010-11 Cost of Attendance =  
\$20,900

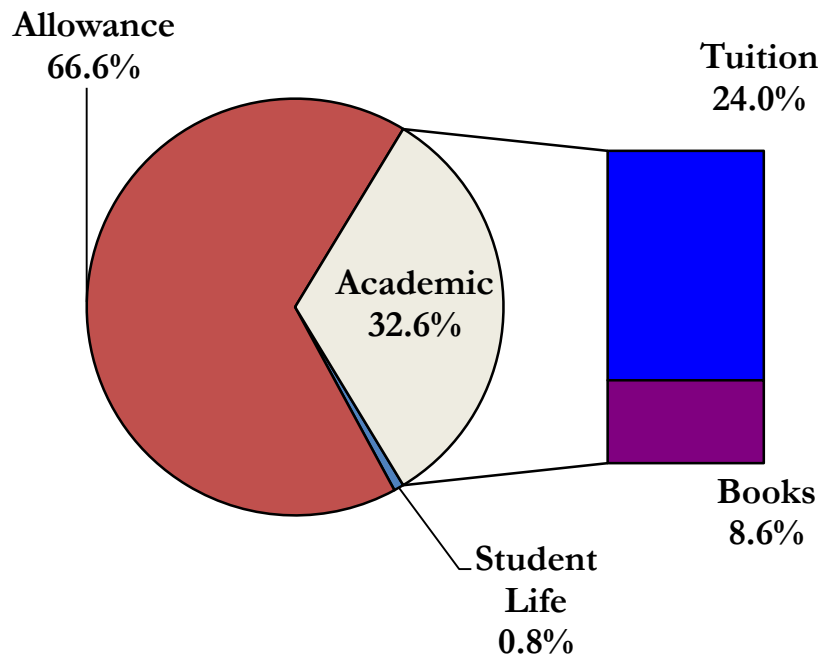
- Academic-related costs make up less than one-third of total cost of attendance
- Student life is over half the cost of attendance
  - Note that not all students pay room & board



# Cost of Attendance Breakdown 2010-11

## Two-Year Institutions

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Est. 2010-11 Cost of Attendance =  
\$13,637

- Academic-related costs make up less than one-third of total cost of attendance
- Allowances reflect two-thirds of the cost of attendance
  - Based on the federal methodology room and board allowances are provided even though there is no official institutional charge

# Expected Family Contribution (EFC)

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- ❑ Based on information reported on the Free Application for Federal Student Aid (FAFSA)
- ❑ Reported to each institution by the federal government using a methodology determined by Congress
- ❑ Key factors:
  - Family income and assets
  - Age and size of family
  - Number in college
- ❑ There is a cliff effect in terms of federal aid eligibility between \$40,000 & \$50,000 AGI
  - In 2011, Virginia's median family income was about \$61,400

# How Virginia Calculates Financial Need

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## **Cost of Attendance (COA)**

- Expected Family Contribution (EFC)
- Gift Aid (Excl. State Aid & Endowments)

= Financial Need (FN)

- Sometimes referred to as Remaining Need

# SCHEV Role in the Process

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- Use state formula to determine:
  - Total undergraduate state financial aid required to meet Remaining Need
    - Formula has been modified in recent
    - Allocation of state aid by institution
  - For purposes of allocation, Remaining Need is capped at tuition and mandatory fees (this includes auxiliary fees)
- Does not determine individual student awards

# Institutions Role in the Process

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- ❑ Use institution formula / processes to get funds to the student
- ❑ Determines individual student awards
  - Uses FAFSA and EFC to put together student-specific financial aid packages
- ❑ Packages include use of federal aid, loans, work study, foundation funds, and state aid
- ❑ Institutional decisions are independent of state allocation process

# Financial Aid for In-State Undergraduates



# Virginia Financial Aid

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- Financial aid programs have long history in the Commonwealth
  - 1930s – War Orphans program established
  - 1950s – Scholarship programs
  - 1970s – TAG established
  - 1980s – Established the current goal to meet at least 50% of remaining need
  - 1990s – Virginia College Savings Plan established
  - 2000s – Significant funding increases for undergraduate and graduate aid at both public and private institutions
    - In-state undergraduate state aid is projected to increase by about 160% in FY 2014 when compared to FY 2000 (over 300% at two-year colleges)
- In FY 2014 the state will allocate over \$237 million in general fund for financial aid to undergraduate and graduate students at public & private institutions
  - \$155.8 million for in-state undergraduate aid at public institutions including the two-year transfer grant & the military survivors program
  - \$18.9 million in graduate financial aid
  - \$61.8 million is provided for the TAG program

# Virginia Financial Aid

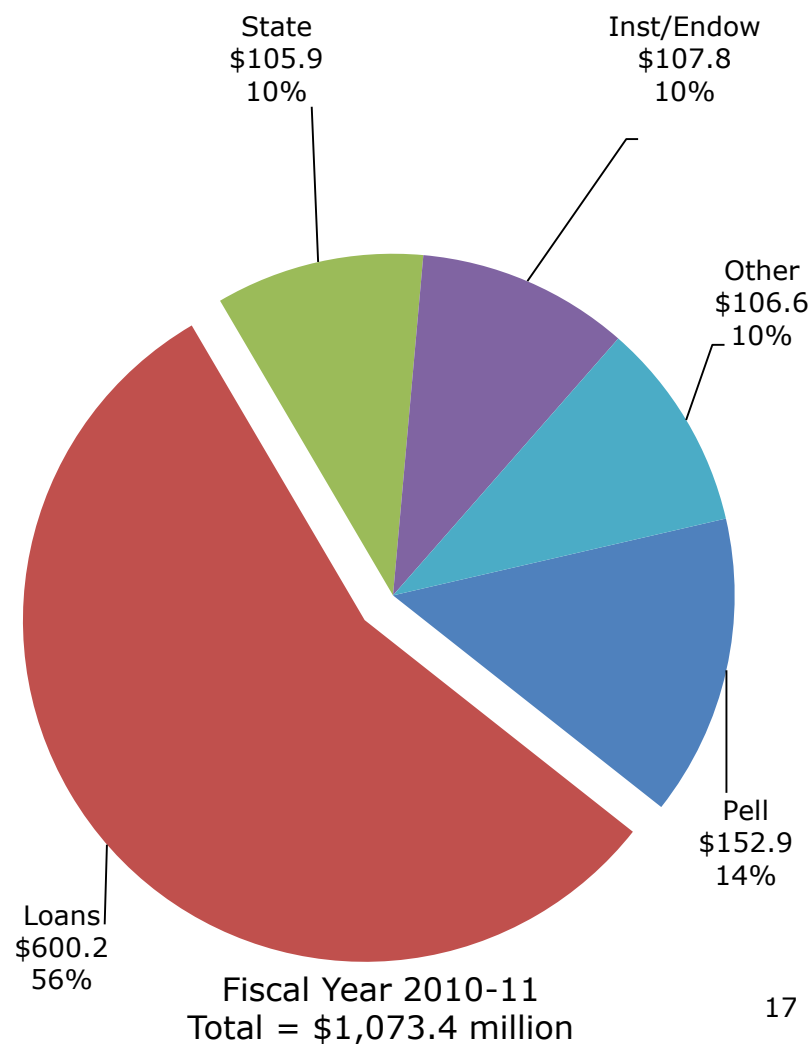
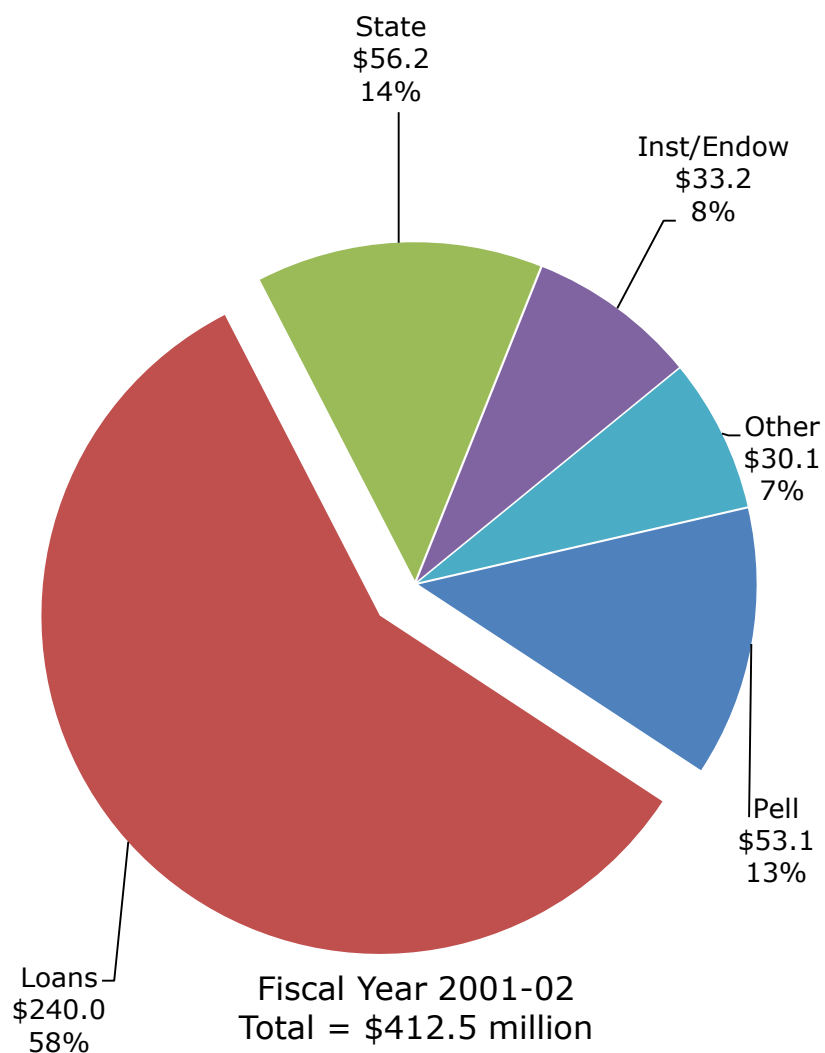
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- In addition to state aid, the most recent data for in-state undergraduates at public institutions from FY 2011 reveals federal grants and loans provided over \$1.1 billion with about 2/3 coming from loans; institution and endowments provided almost \$122 million; and private & local government financial aid provided about \$131 million
  - Total financial aid available to in-state undergraduates totals over \$1.5 billion in 2011
- In 2011, approximately 151,000 Virginia undergraduate students were identified to have some level of financial need
  - This represents about 47 percent of the almost 319,000 in-state headcount enrollment for 2010-11



# Distribution of In-State Undergraduate Financial Aid at 4-Year Institutions

*2001-02 vs. 2010-11*



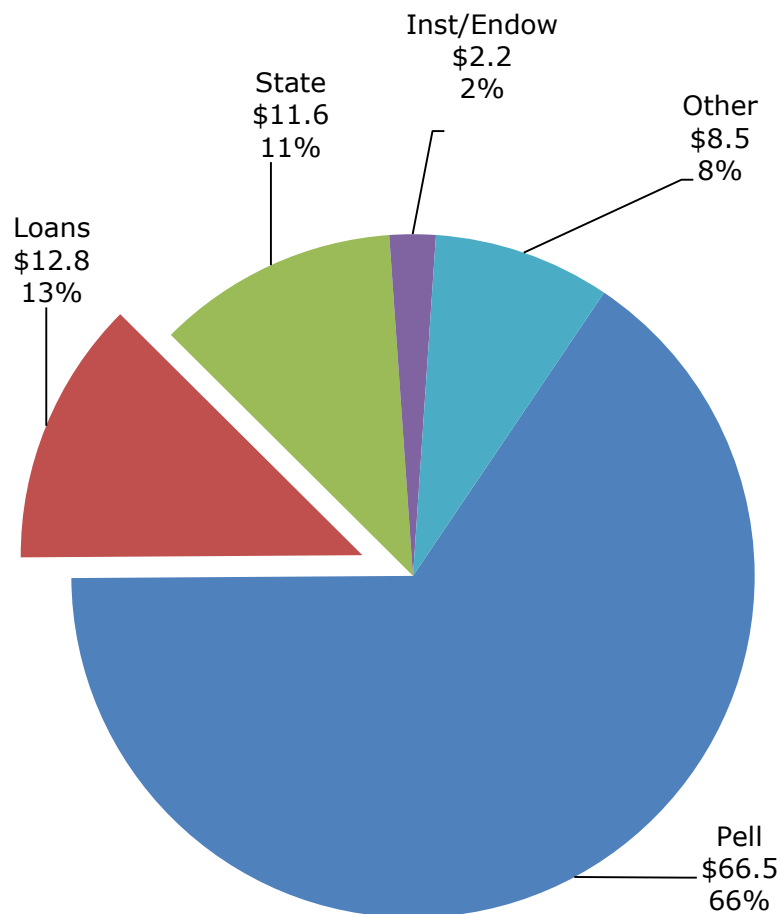
# In-State Undergraduate Financial Aid from FY 02 to FY 11 at 4-Year Schools

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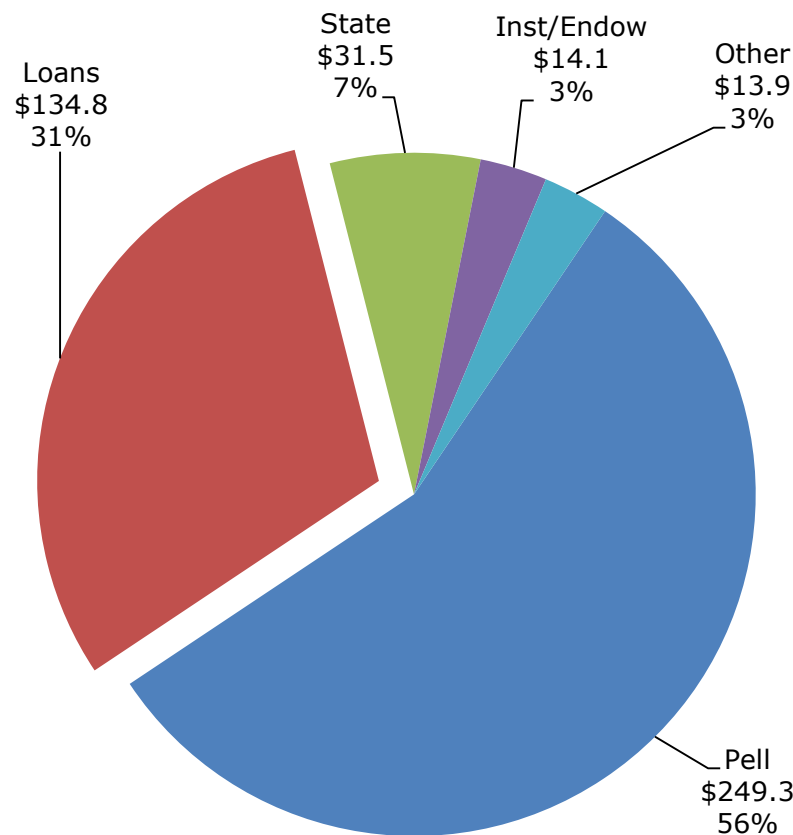
- Overall, in-state undergraduate financial aid increased by about \$661 million or 160% from FY 2002 to FY 2011 at 4-year schools
  - Pell increased by \$100 million or 188%
  - Loans increased by \$360 million or 150%
  - State aid increased about \$50 million or almost 90%
  - Institution / Endowment aid increased about \$75 million or almost 225%
  - Other aid increased about \$76 million or almost 255%
- By comparison, other metrics also changed during the period
  - Inflation as measured by CPI increased by 25%
  - In-state undergraduate headcount increased by about 22% over the same period
  - In-state undergraduate tuition grew by an average annual rate of about 11.1% over the FY 02 - FY 11 period, i.e. a total of about 160%
  - General fund per in-state FTE decreased by an average annual rate of 3.1% over the FY 02 – FY 11 period, i.e. a total of about 25%

# Distribution of In-State Undergraduate Financial Aid at 2-Year Institutions

*2001-02 vs. 2010-11*



Fiscal Year 2001-02  
Total = \$101.6 million



Fiscal Year 2010-11  
Total = \$443.6 million

# In-State Undergraduate Financial Aid from FY 02 to FY 11 at 2-Year Schools

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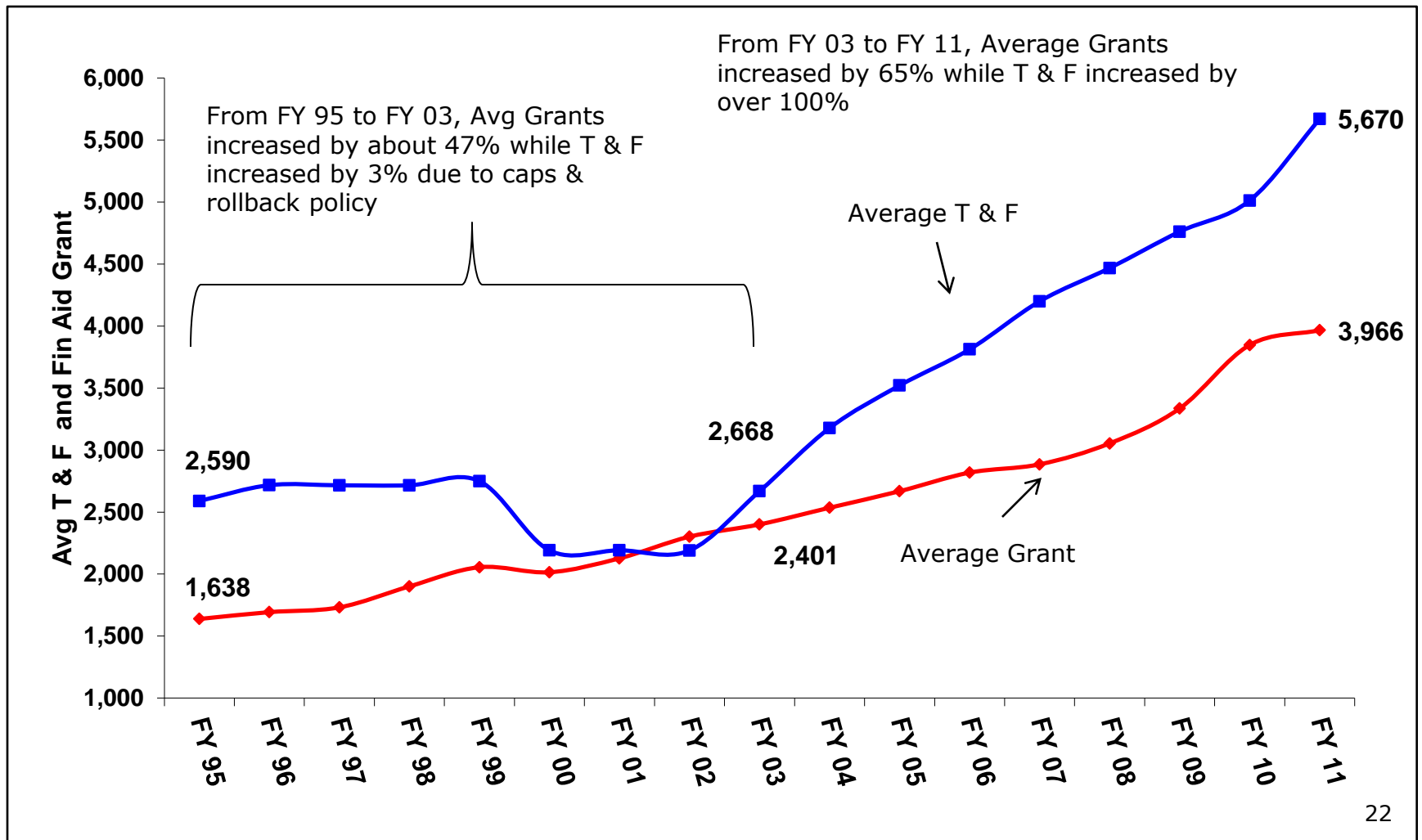
- Overall, in-state undergraduate financial aid increased by \$342 million or about 337% from FY 2002 to FY 2011 at 2-year schools
  - Pell increased by \$183 million or almost 275%
  - Loans increased by \$122 million or over 955%
  - State aid increased about \$20 million or about 171%
  - Institution / Endowment aid increased about \$12 million or almost 540%
  - Other aid increased by \$5.5 million or almost 65%
- By comparison, other metrics also changed during the period
  - Inflation as measured by CPI increased by 25%
  - In-state undergraduate headcount increased by about 37% over the same period
  - In-state undergraduate tuition grew by an average annual rate of about 12.4% over the FY 02 - FY 11 period, i.e. a total of about 186%
  - General fund per in-state FTE decreased by an average annual rate of 2.5% over the FY 02 – FY 11 period, i.e. a total of about 21%

Has the significant increases in  
financial aid yielded greater  
affordability?



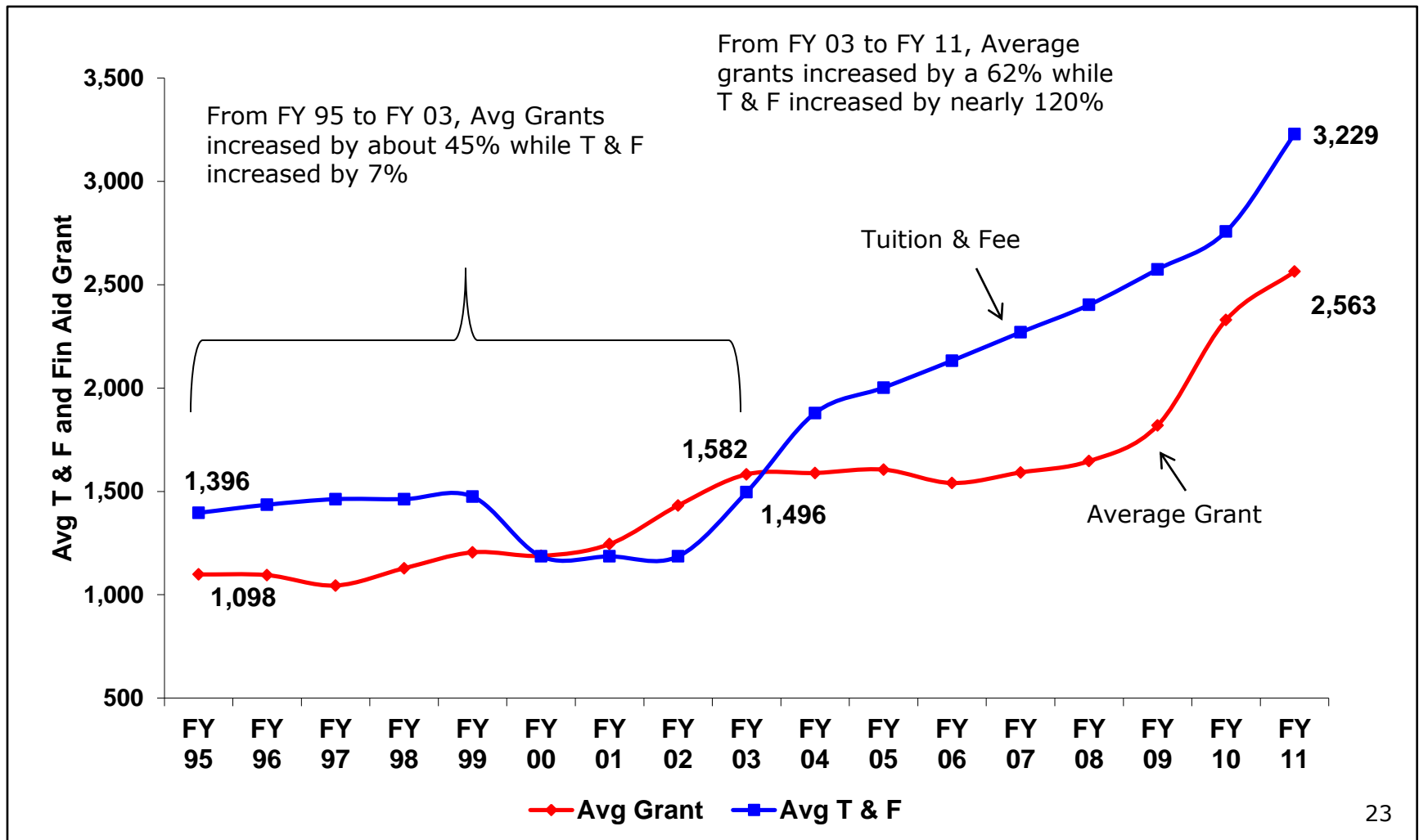
# Average T & F and Grant Awards

## 4-Year Institutions

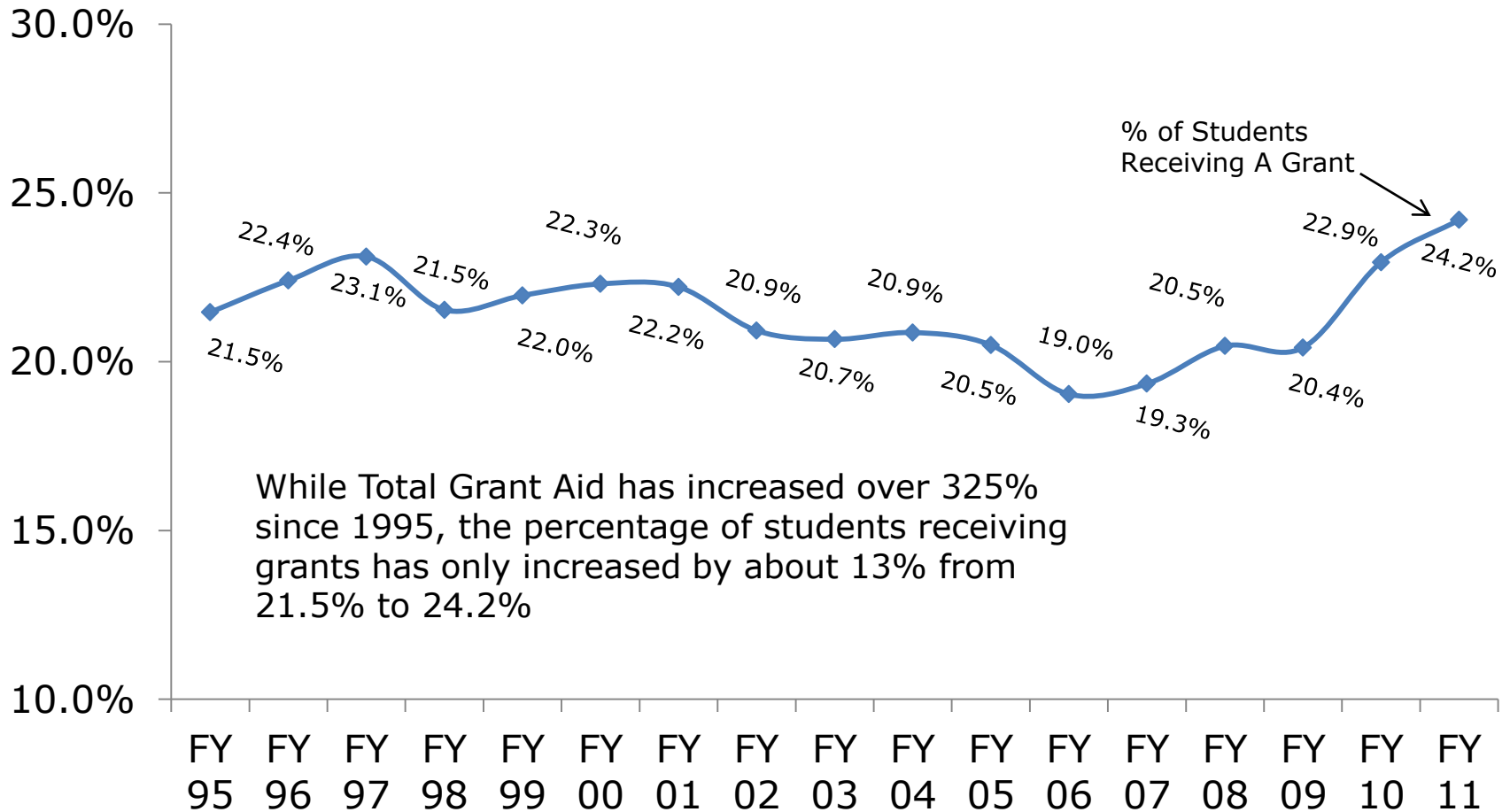


# Average T & F and Grant Award

## 2-Year Institutions



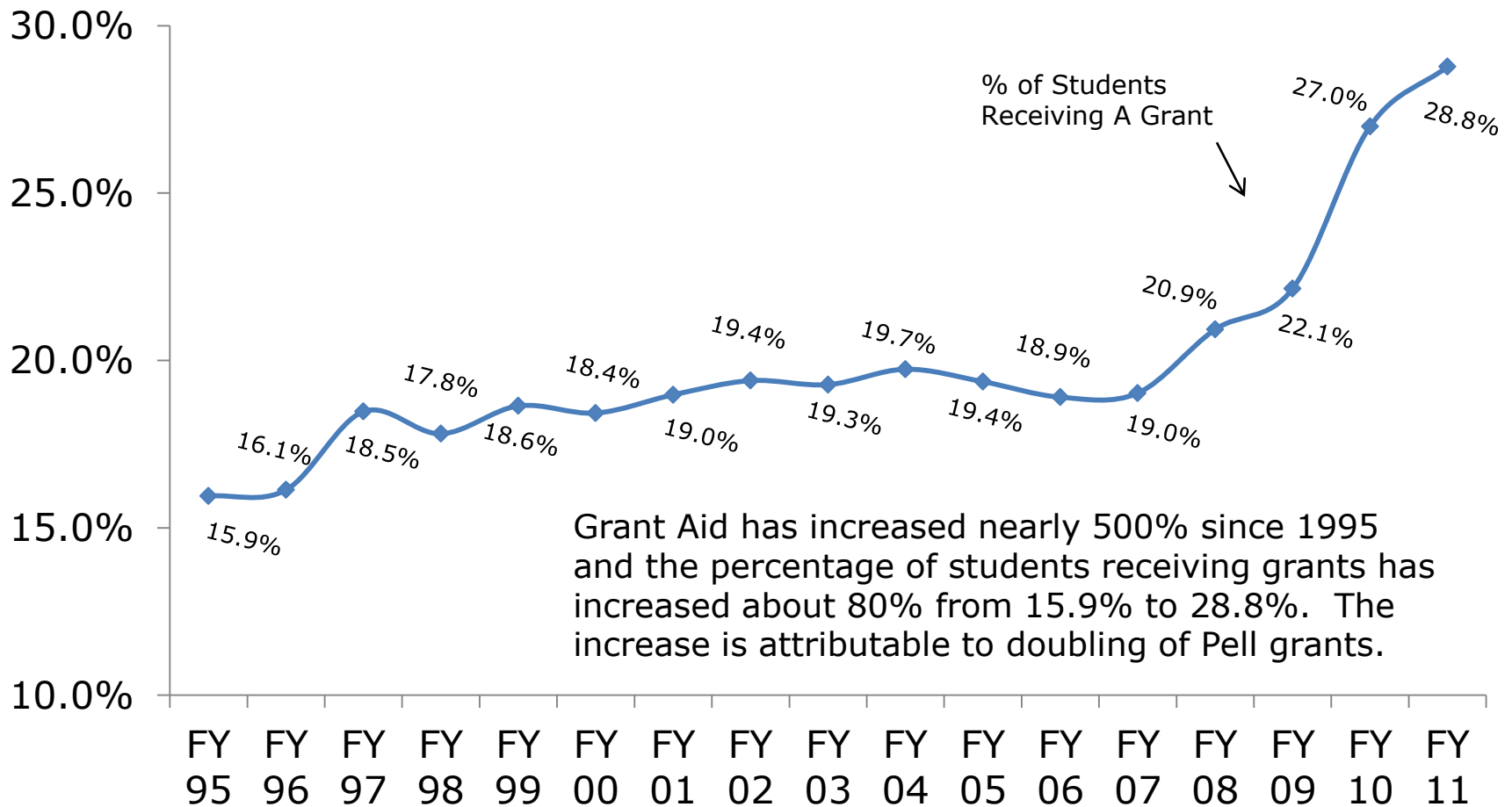
# Proportion of All Students Receiving Grants *4-Year Institutions*





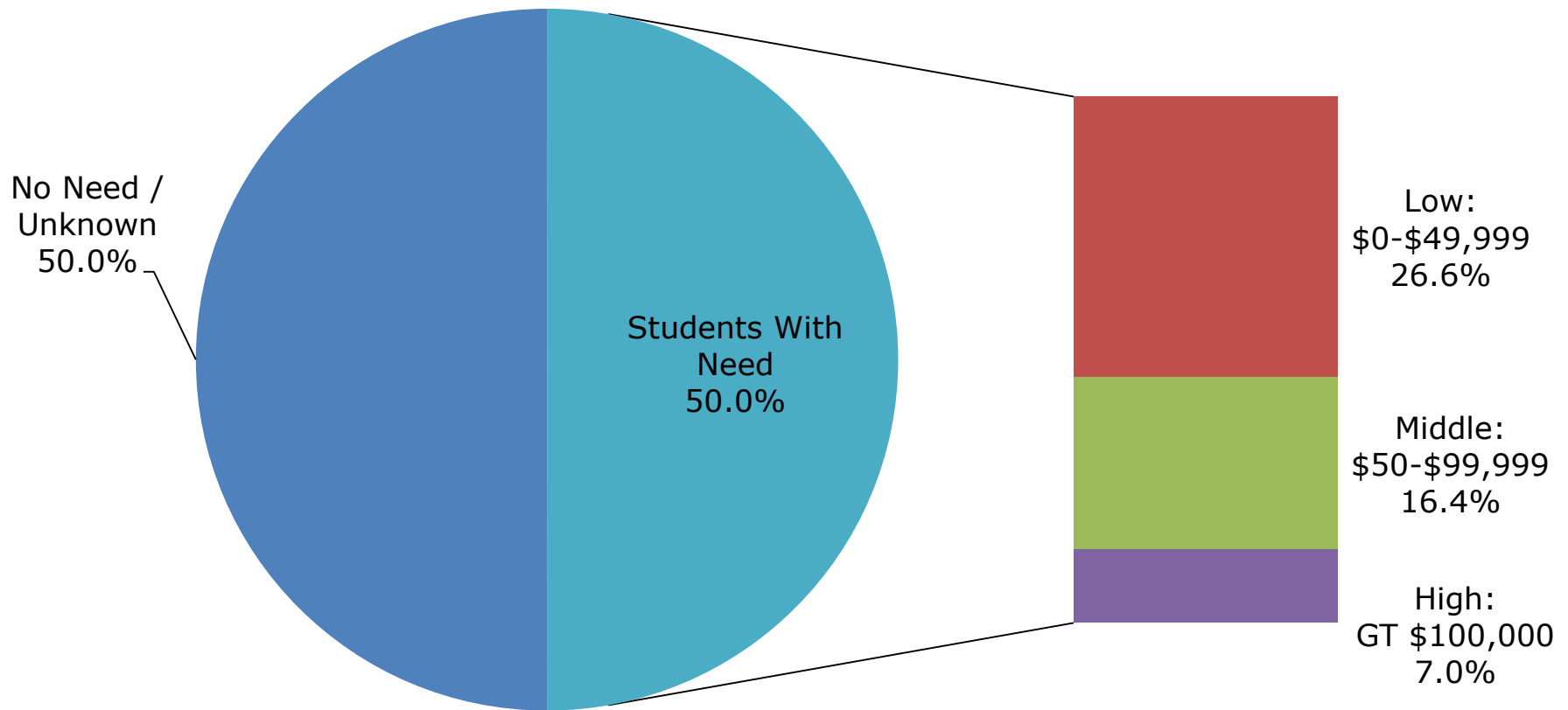
# Proportion of All Students Receiving Grants

## *2-Year Institutions*



# Distribution of 2010-11 In-State Student Enrollment at 4-Years

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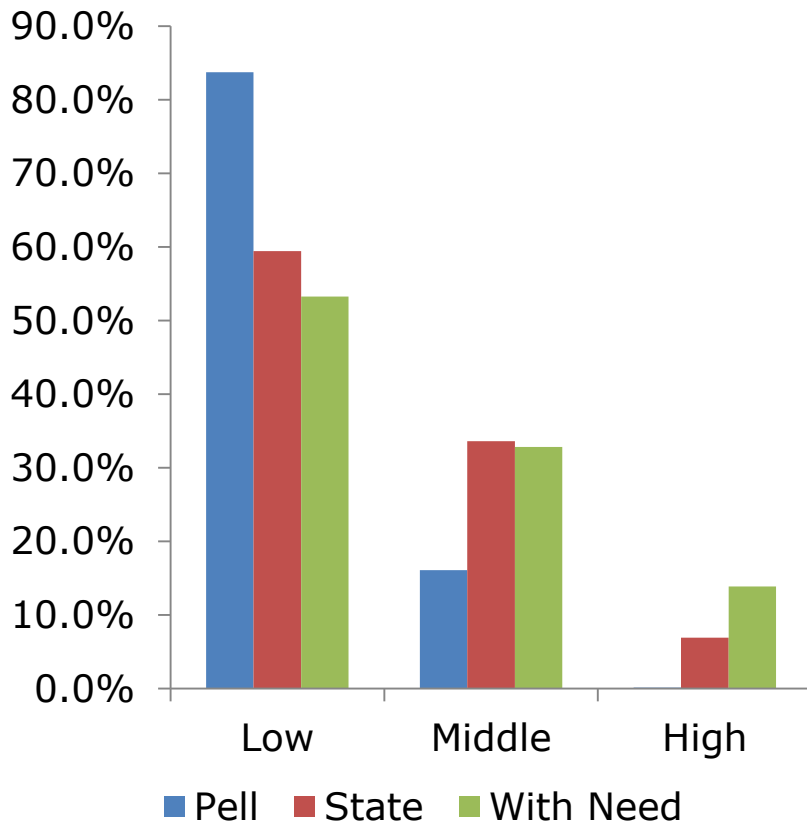


2010-11 Total Students = 131,489

# Financial Aid By Income Range

## *Pell & State Grants at 4-Years*

**% Grants Allocated Compared to % With Need By Income Range**

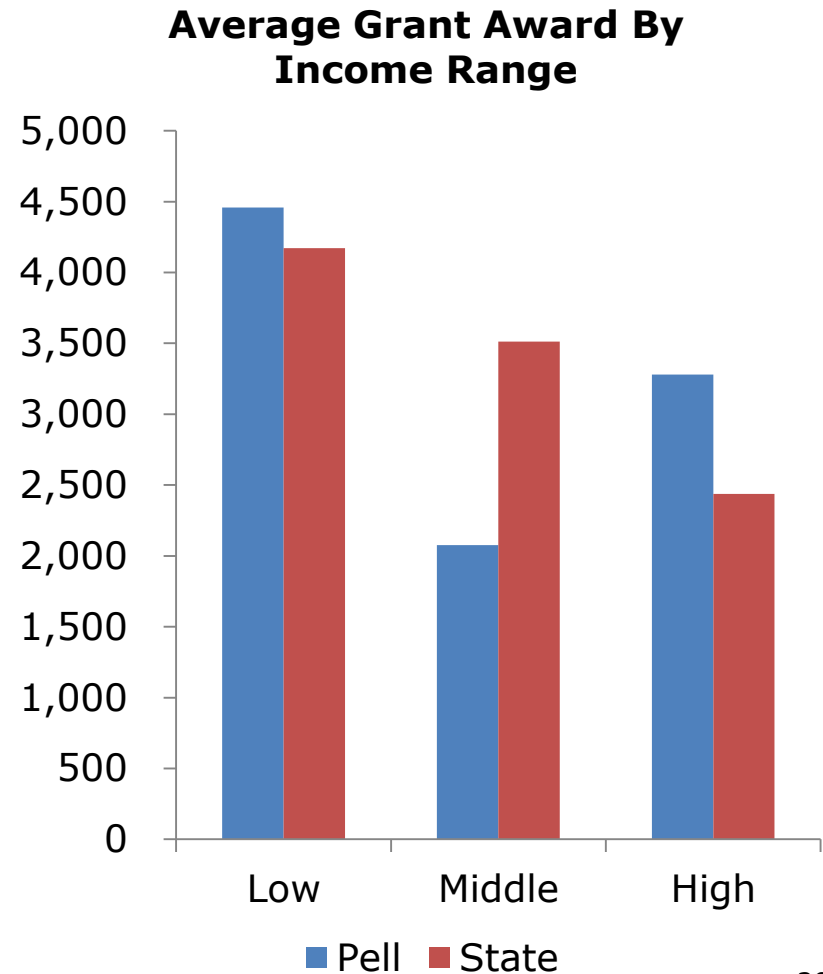


- Students coming from low-income families comprise about 53% of students with need but receive about 84% of Pell grants and about 60% of state grants
- Students from the middle family income range comprise about 1/3 of students with need but receive only 16% of Pell while State grants are more proportionally allocated
- Students from families over \$100,000 are about 14% of students with need but receive virtually no Pell and about 7% of State grants

# Financial Aid By Income Range

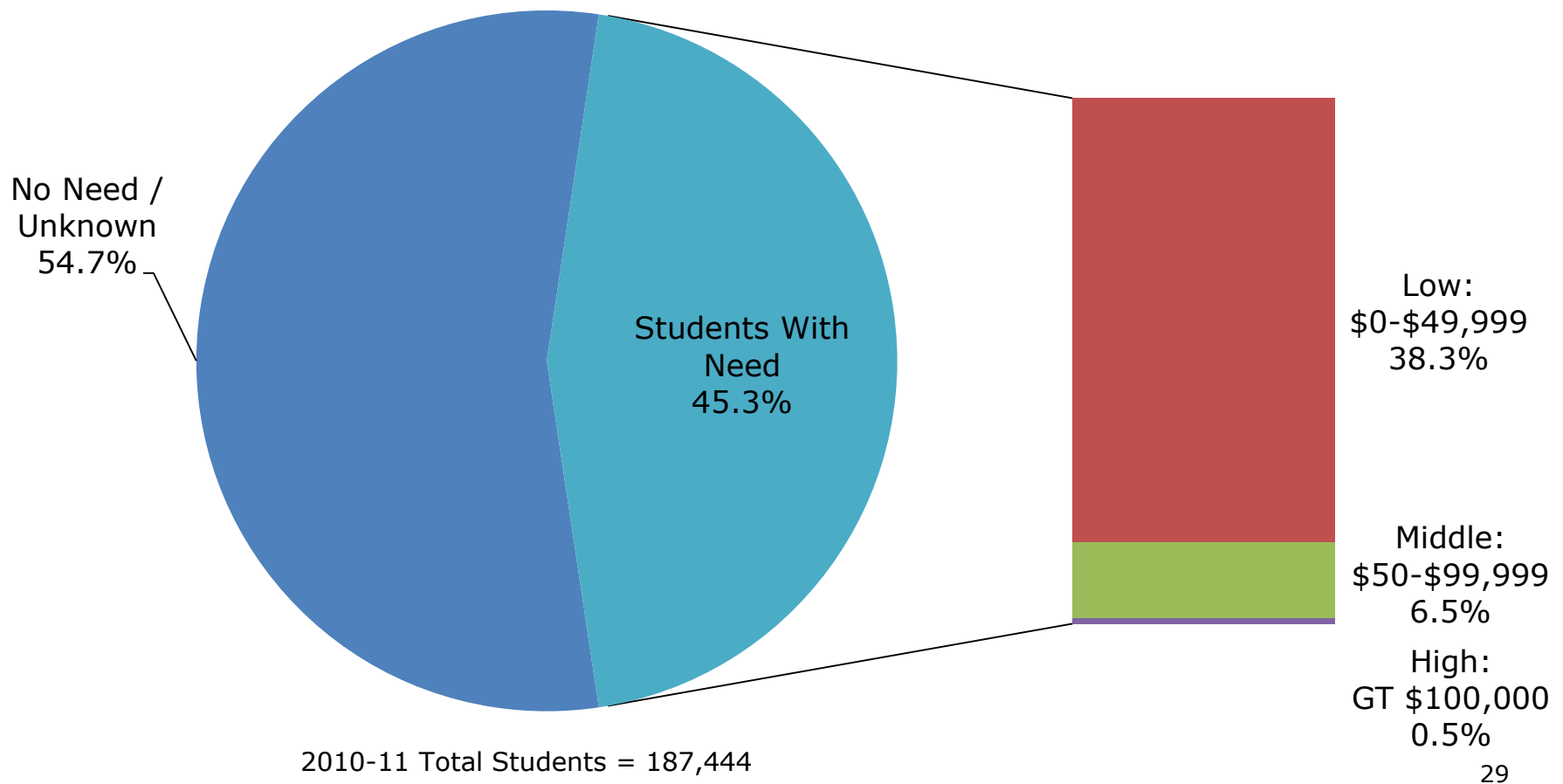
## *Pell & State Grants at 4-Years*

- Students in the low income range receive average Pell awards of about \$4,500 & State awards of about \$4,000
- Pell awards for students in the middle income group drop by nearly \$2,500 (“cliff effect”)
  - State awards do not drop as much in an attempt to backfill the need
- Less than 60 Pell grants were awarded to student in the high income range



# Distribution of 2010-11 In-State Student Enrollment at 2-Years

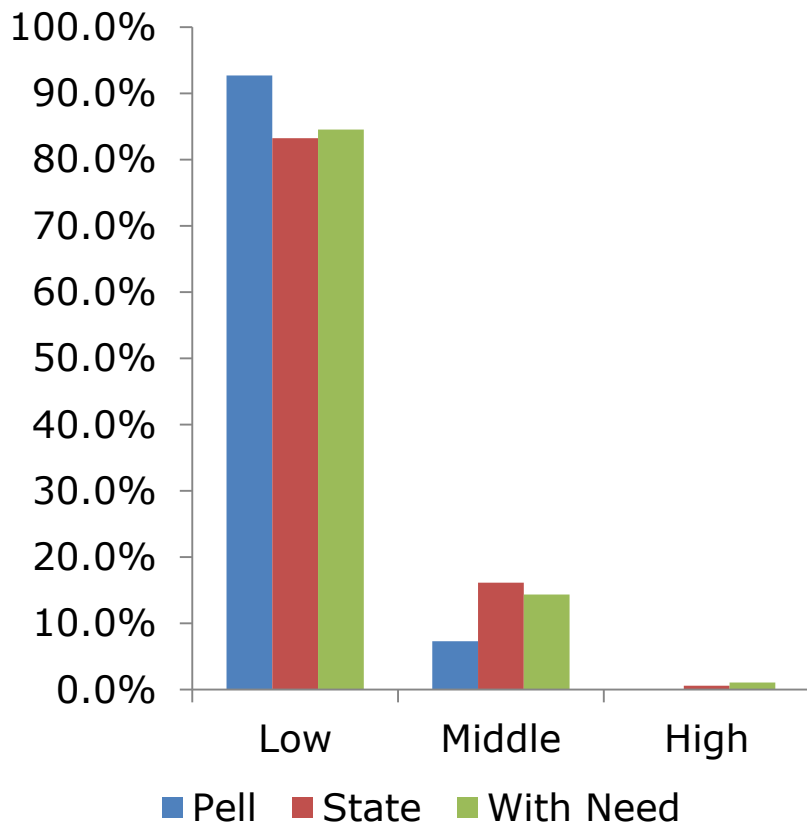
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# Financial Aid By Income Range

## *Pell & State Grants at 2-Years*

**% Grants Allocated Compared to % With Need By Income Range**

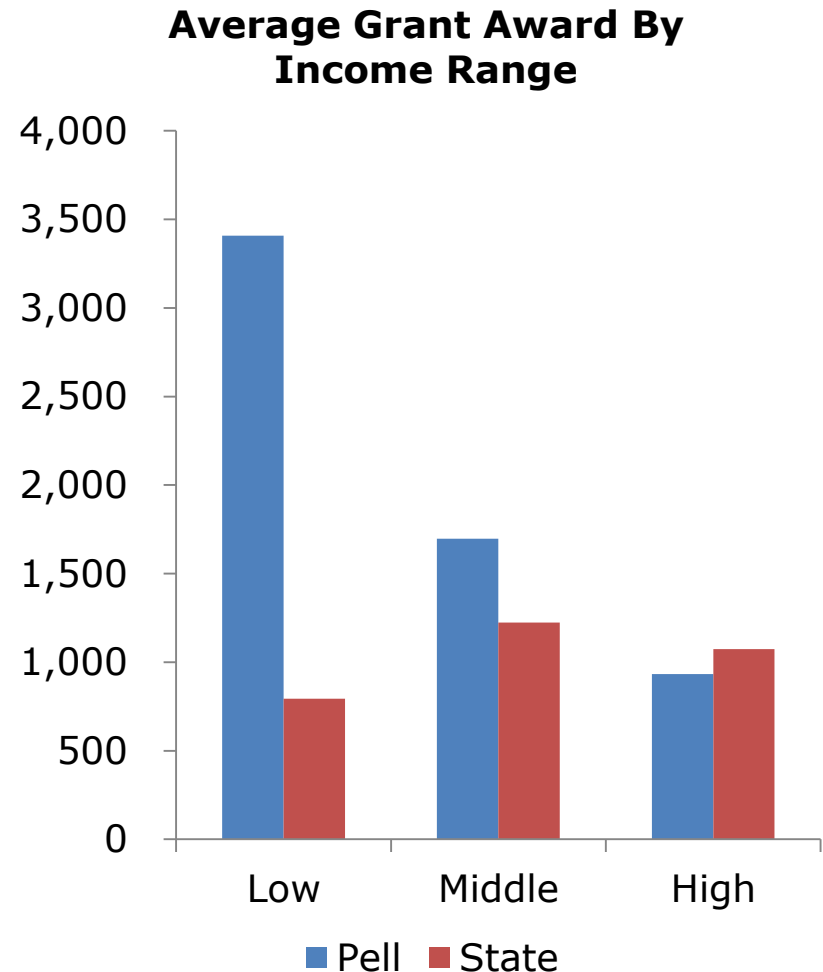


- Students from the low income band comprise about 85% of students with need and receive 93% of Pell grants and 83% of State grants
- Students in the middle income band comprise about 14% of students with need but only receive 7% of Pell grants ("cliff effect")
  - State grants are slightly more than 16%
- Less than 1,000 students with need come from the high income band

# Financial Aid By Income Range

## *Pell & State Grants at 2-Years*

- Pell awards in the low income range average \$3,400 which is equivalent to tuition and mandatory fees at the VCCS
  - When combined with average State grants of almost \$800, academic costs for VCCS students are covered
- Pell awards drop significantly for middle income range (“cliff effect”)



# Does Financial Aid Equal Affordability?

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- For a portion of the total student population, financial aid does assist in providing / maintaining access
  - About 25 to 30 percent of the total student population will likely receive Pell and / or a state grant
- Most of the grant funding is allocated to students in the low income range (\$0-\$49,999 family income)
  - In 2010-11, about 2/3 of all gift aid, over \$500 million, was allocated to about 1/3 of the total in-state undergraduates
  - This means 2/3 of the in-state students will need to borrow more as COA increases
- For a significant percentage of the student population including middle income students, paying for college is a mainly combination of parent & student borrowing and parent & student personal income & savings
  - Student debt load has increased in Virginia



# Student Debt



# Types of Student Debt

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- Federal government is primary source for student loans
- Loan options:
  - Stafford Subsidized
    - Government pays interest while in school
    - Eligibility determined by FAFSA & demonstrate need
      - 2/3 of all subsidized loans are awarded to students with family income below \$50,000
    - Caps to amount you can borrow
  - Stafford Unsubsidized
    - You pay interest although it can be deferred
    - Everyone eligible but must file FAFSA
    - Caps to total borrowing including subsidized
  - PLUS loans
    - Parents borrowing
    - Limit to COA less other financial aid
  - Private loans
    - Typically limited to COA less other financial aid
    - Other forms of private loans such as home equity are captured in data

# Student Debt

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- ❑ In June 2010, total student loan debt outstanding exceeded total credit card debt outstanding for the first time
- ❑ While revolving debt (mainly credit card) began to decline in 2008, student loan debt has steadily increased and in May 2012 exceeded \$1 trillion and this includes only the remaining original principal balance and excludes capitalized interest
- ❑ The recent October 2012 report by the Project on Student Debt indicated that the current job market is creating a challenge for college graduates needing to pay back student loans
  - College graduate unemployment rate was 8.8% in 2011
    - ❑ This is still better than the young high school graduate unemployment rate of about 19%
  - Citing a September 2012 analysis by Economic Policy Institute (EPI), about 19% of graduates were either working part-time or had given up looking for work
  - This same EPI analysis indicated that almost 38% of working graduates had jobs that did not require a college degree resulting in depressed wages

# Student Borrowing At Selected States

## *Public Institutions*

STATE NAME	Average Debt of Graduates	Percent of Graduates with Debt
Minnesota	\$28,907	70%
Iowa	\$27,891	65%
Michigan	\$26,951	60%
Ohio	\$26,881	66%
Indiana	\$26,488	60%
Massachusetts	\$25,882	72%
Alabama	\$25,588	51%
South Carolina	\$25,367	53%
West Virginia	\$25,029	63%
Wisconsin	\$24,232	64%
Mississippi	\$23,641	54%
Maryland	\$22,695	54%
Virginia	<b>\$22,655</b>	<b>56%</b>

STATE NAME	Average Debt of Graduates	Percent of Graduates with Debt
Missouri	\$22,590	67%
Kentucky	\$22,119	57%
Colorado	\$22,054	56%
Arkansas	\$21,413	54%
Texas	\$20,612	56%
Oklahoma	\$20,490	53%
Georgia	\$20,479	56%
Washington	\$20,436	53%
Tennessee	\$20,258	51%
Florida	\$20,221	47%
Louisiana	\$19,946	42%
North Carolina	\$18,372	50%
Utah	\$16,317	51%

Source: [www.college-insight.org](http://www.college-insight.org)

# Virginia Student Borrowing

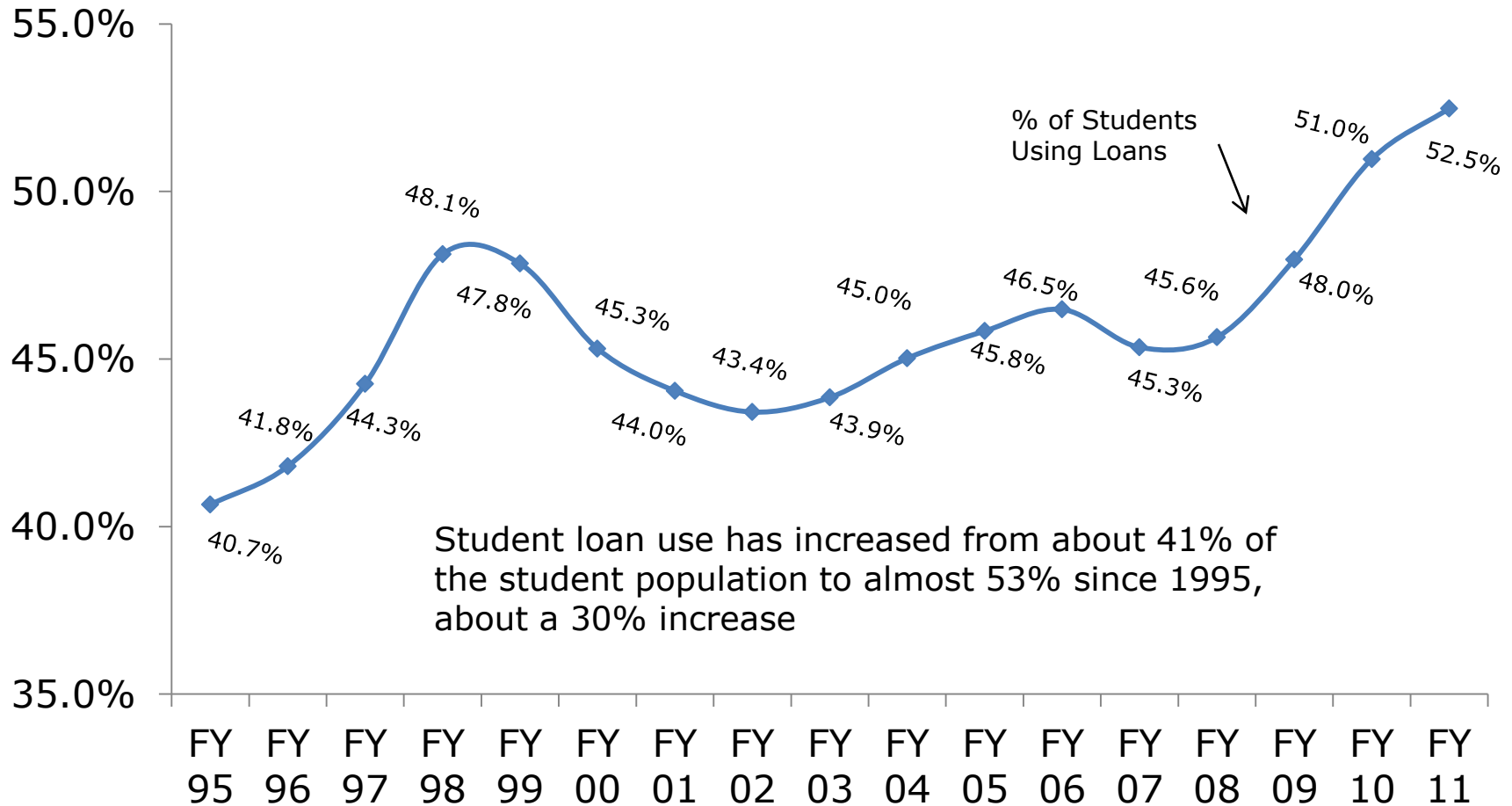
## *4-Year Public Institutions*

Year	Percent of graduates with debt	National Rank	Average debt of graduates	National Rank
2004-05	51%	34	15,926	36
2005-06	53%	30	17,121	28
2006-07	56%	25	17,672	29
2007-08	55%	21	18,298	28
2008-09	55%	23	19,675	28
2009-10	55%	24	21,495	27
2010-11	56%	26	22,655	27

- Since FY 2005, Virginia's ranking in terms of the percent of graduates with debt and the average debt of graduates has worsened
- Average debt of graduates has increased by nearly \$7,000 or about 42%
- The number of students graduating with debt has increased by five percentage points or about 10%
- Virginia was among the 15<sup>th</sup> lowest higher education systems in 2005
- In 2011, Virginia is approaching the top 25 in terms of student borrowing

# Percent of Virginia UG Students Using Loans

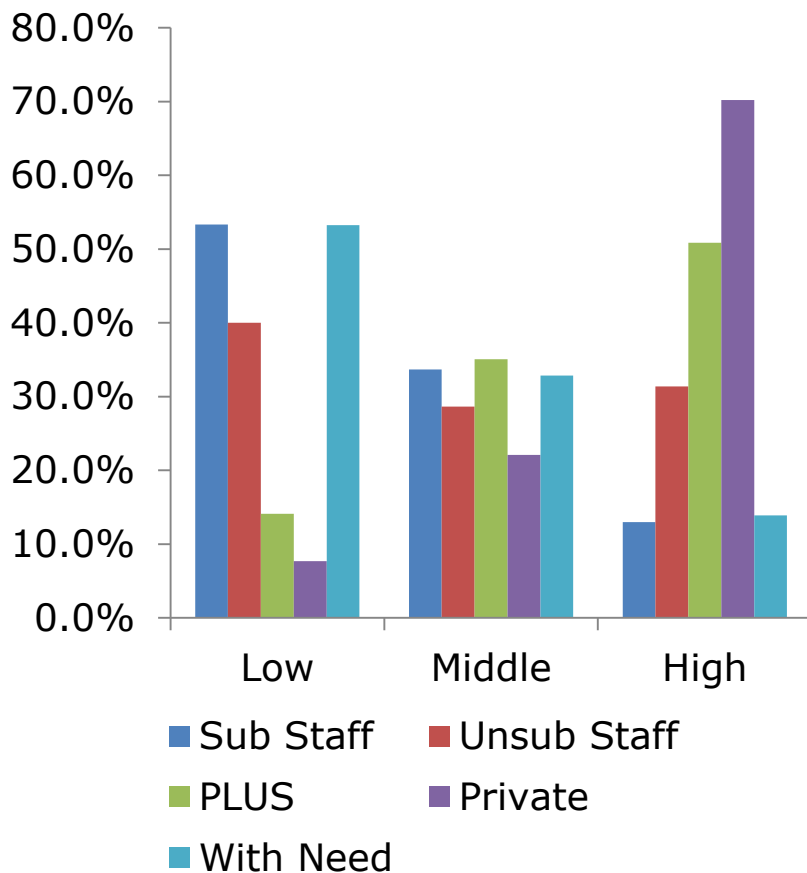
## *4-Year Public Institutions*



# Use of Loans by Income Range (2010-11)

## *Stafford, PLUS & Private Loans at 4-Years*

**% Using Loans Compared to % With Need By Income Range**

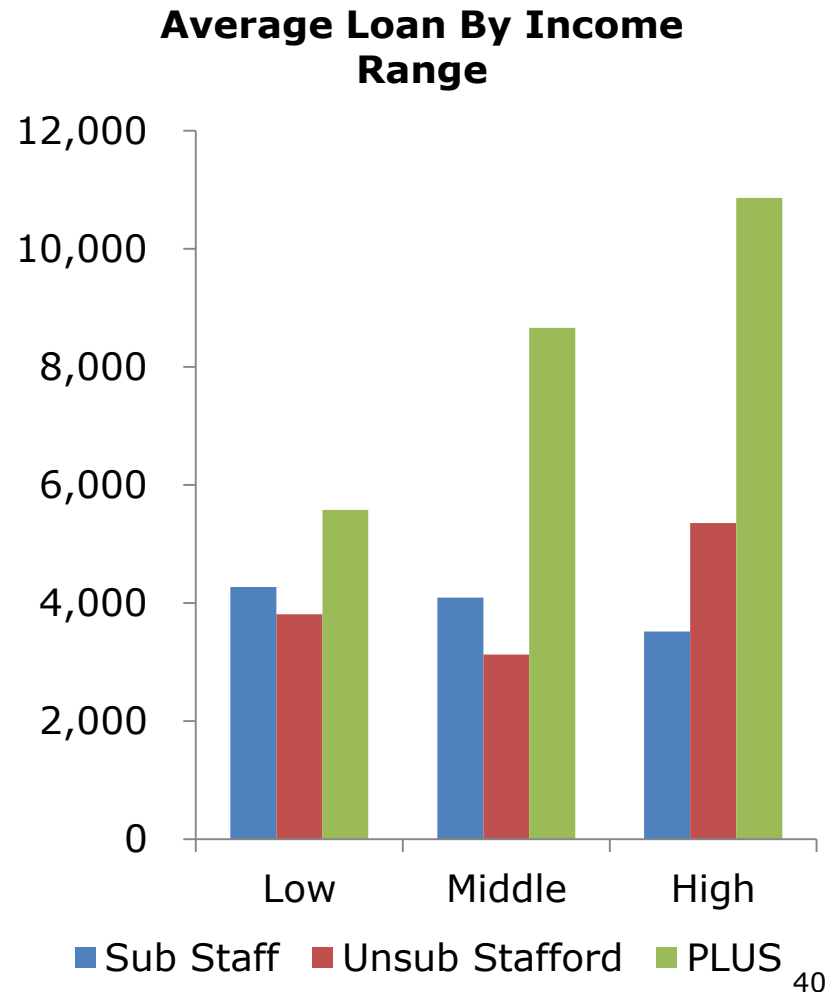


- Stafford subsidized loans are based on student need so the percentage of students using those loans tends to mirror the percentage of students with need
- Needier students make up a smaller proportion of unsubsidized Stafford, PLUS & private loans
- As income levels rise, students use unsubsidized, PLUS & especially private loans in greater proportion

# Use Loans By Income Range (2010-11)

*Stafford Subsidized, Stafford Unsub. and PLUS at 4-Years*

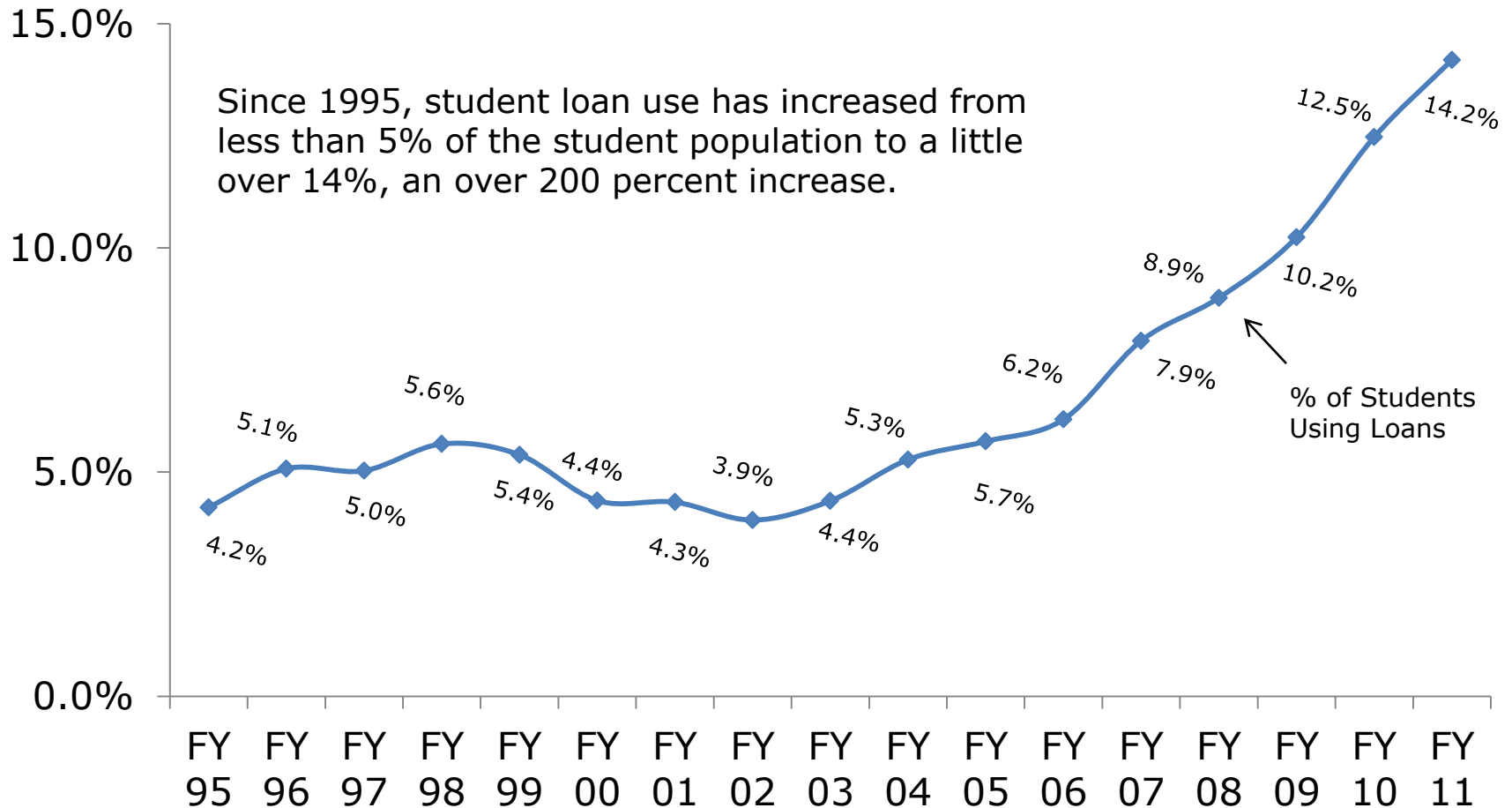
- Generally, total student loans should not exceed the total cost of attendance and estimated grant aid
- Amounts borrowed increase as income level rises
- PLUS loans serve as main access tool for middle and upper income students
- Average private loan data was not available
- Other borrowing via credit cards, personal loans or home equity is not included





# Percent of Students Using Loans

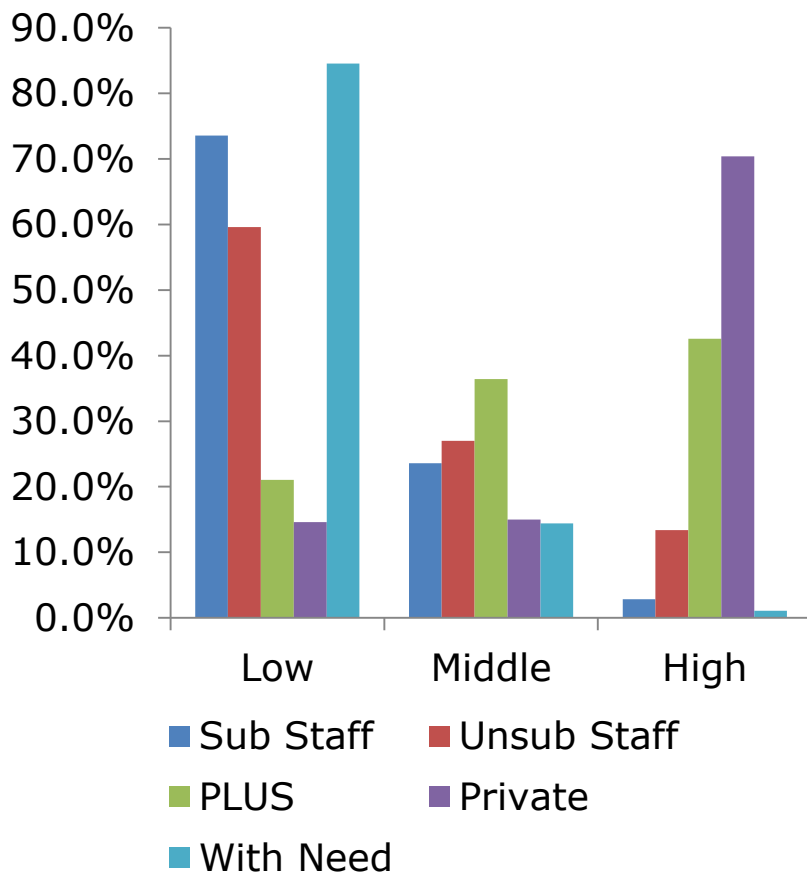
## *2-Year Institutions*



# Use Loans By Income Range (2010-11)

## *Stafford, PLUS & Private Loans at 2-Years*

**% Using Loans Compared to %  
With Need By Income Range**



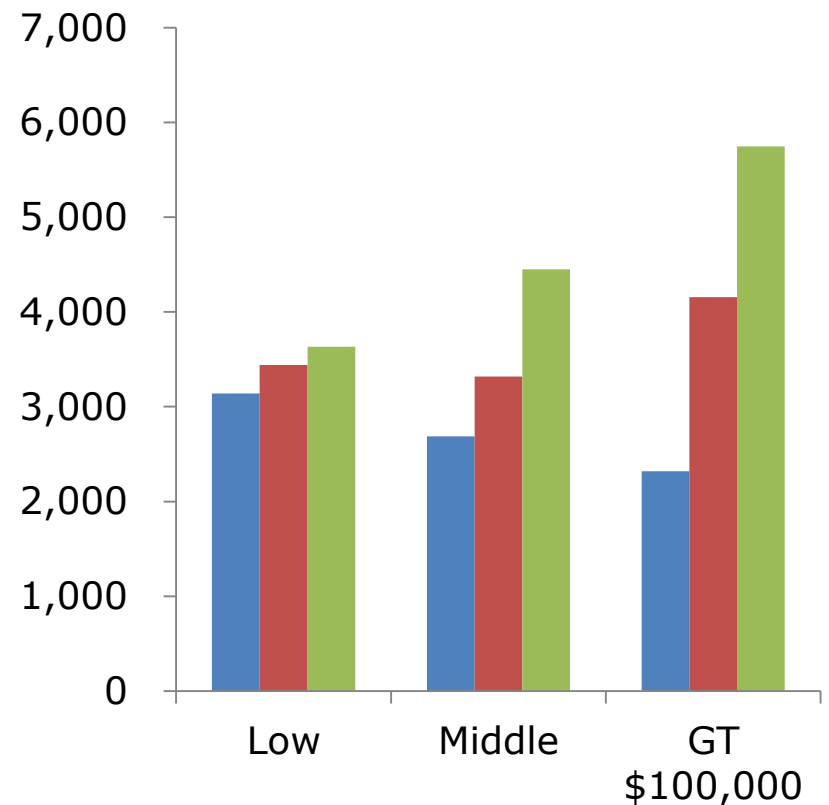
- Middle and upper income students tend to utilize loans in larger proportions especially PLUS & private loans
- High income students comprise about one percent of students with need but account for 10 percent of total borrowing

# Use Loans By Income Range (2010-11)

*Stafford Subsidized, Stafford Unsub. and PLUS at 2-Years*

- Similar to 4-years amounts borrowed increase as income level rises
- Students appear to be borrowing in excess of actual billed tuition & fee costs plus books because the cost of attendance includes sizable allowances
  - Lower income students are borrowing even though average grants exceed billed costs

**Average Loan By Income Range**



# Policy Issues and Questions



# Can Student Borrowing Be Mitigated?

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- The approach most often proposed is to simply increase financial aid
  - But this typically only impacts about 1/3 of the student population
- Despite significant growth in grant aid from federal, state, institution and private sources, student borrowing continues to grow
  - Grant aid at 4-years increased by over \$300 million since 2002 but loans increased by \$360 million for the same period
    - Note that tuition grew by 160% over the same period
  - Grant aid at 2-years increased by over \$220 million since 2002 but loans increased by \$122 million for the same period
    - Note that tuition grew by about 186% over the same period
- This seems to bear out the data nationally that shows a strong correlation between tuition rates and increased borrowing
- Continue the House approach of targeting GF support for operating needs in order to moderate the need to increase tuition
  - Dollars targeted through use of the six-year plans
  - Examine each institution and its tuition ability discretely

# What is an Appropriate COA for State Allocation Purposes?

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- ❑ Academic Costs
  - Tuition and E & G fees
  - Books & Supplies
- ❑ Student Life Costs & Allowances
  - Comprehensive Fee – this is a mandatory expense
  - Room Charge or Allowance
  - Board Charge or Allowance
  - Personal Expenses Allowance
  - Transportation Allowance
- ❑ For example, are room and board costs / allowances always applicable?
  - Two-year institutions have neither but are provided an allowance that may inflate COA
  - Stay-at-home students
  - Working students
- ❑ Do allowances enable greater borrowing?

# Should Students Be Responsible for some of the COA for State Allocation Purposes?

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- We do recognize EFC in our calculations but some states are also incorporating assumptions that students bear responsibility for a portion of the cost
  - Minnesota requires almost 50% and is not income-based
- The underlying principle is that students will make better educational choices when they invest their own money
  - Will benefits / ROI exceed the price

# Use of Tuition for Financial Aid

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- Has become a more widely used tool in the last few years
- Recent six-year plan data indicates that 4-year institutions plan to use an average of about 7% of tuition revenue from in-state undergraduate students as need-based financial aid for in-state undergraduates
  - Seven 4-year institutions plan to use 5% or less while eight institutions plan to use more than 5%
  - Two-year institutions do not report any planned use of in-state tuition for this purpose



# Use of Tuition for Financial Aid

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- ❑ Should there be some limit to the amount or percentage of tuition dollars used as financial aid?
- ❑ Should institutions provide for greater transparency on how much is being charged for this purpose?
- ❑ Should all aid be purely need-based or is it reasonable to expect that merit or performance criteria play some role?
- ❑ Because financial aid is primarily focused at students in the low income band, tuition increases for financial aid could result in middle and high income students having to begin borrowing or increase the amounts borrowed

# Questions

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